BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Increase of rates and Charges and USF Eligibility by Carbon/ Emery Telecom, Inc.	: : : : :	Docket No. 05-2302-01

DIRECT TESTIMONY

OF

ROXIE McCULLAR

ON BEHALF OF THE UTAH COMMITTEE OF CONSUMER SERVICES

NOVEMBER 17, 2005

I. INTRODUCTION

Q. Please state your name and business address?

A. My name is Roxie McCullar. My business address is 8625 Farmington Cemetery Road, Pleasant Plains, Illinois 62677.

Q. What is your present occupation?

A. I am a consultant with the firm of William Dunkel and Associates. I have been employed at William Dunkel and Associates since 1997. Since that time, I have regularly provided consulting services in regulatory proceedings throughout the country.

Q. On whose behalf on you testifying?

A. I am testifying on behalf of the Committee of Consumer Services (CCS).

Q. Have you prepared an appendix that describes your qualifications?

A. Yes. My qualifications are shown on Appendix A.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of this testimony?

A. The purpose of this testimony is to address Carbon/Emery's proposed depreciation rates and separation factors included in the Company's filing. Also, attached to my testimony, as Schedule RM-1 is a summary incorporating all adjustments proposed by the CCS witnesses. I started with Carbon/Emery's as filed amounts and made the adjustments to the Company's filing that are recommended in the testimonies of Mr. Dunkel, Mr. Regan,

and myself. Schedule RM-1 contains only the CCS proposed adjustments. We reserve the right to review the testimony filed by other parties in this proceeding and incorporate any appropriate additional adjustments suggested by those other parties.

III. CCS SUMMARY SCHEDULE

Q. Please explain Schedule RM-1.

A. Schedule RM-1 consists of Schedules RM-1.1 through RM-1.10. Schedule RM-1.1 is a two page summary schedule that begins with the Company's filed adjusted intrastate amounts in column (A). Columns (B) through (L) are the CCS proposed adjustments; the heading of the column contains a brief description of the CCS adjustment, the supporting Schedule, and the supporting witness. Row 1, Column (O) shows that after applying all of the CCS recommendations a $392,859 annual increase over current intrastate revenue levels is appropriate.

Schedules RM-1.2 thru RM-1.10 are supporting schedules that calculate revisions to the Company's filing that are summarized in Schedule RM-1.1.

IV. DEPRECIATION ANALYSIS

Q. Please start with a brief description of depreciation.

A. Depreciation allows the company the opportunity to recover their investment in the plant used to provide service over the expected useful life of that plant. For example, when a company purchases a switch that switch will be used for many years, not just the year the switch is installed. Therefore, the investment of that switch is recovered over the years of

service instead of recovering the full investment of the switch just in the year it was installed.

This is accomplished by expensing a certain percent of the investment annually until the full amount of the investment has been recovered. In depreciation when an investment has been fully recovered (which is referred to as being fully depreciated), the Company will "turn off" the depreciation of that account.[1] In other words, when an account is fully depreciated the Company no longer books a depreciation expense amount for that account.

Q. Please discuss the adjustment shown in Column (B) of Schedule RM-1.1.

A. On Company Exhibit S-7, the Company claims that they have been using unauthorized depreciation rates for four accounts. According to the Company's filing, changing to the "authorized" depreciation rates added $63,401 ($38,358 intrastate) to the depreciation expense in the Central Office Switching account.[2] Carbon/Emery claims that the "authorized" depreciation rate for account 2210 – Central Office Switching is 20%. However, the Company's response to discovery does not show 20% as the "authorized" depreciation rate for Account 2210 – Central Office Switching. CCS asked in discovery to provide a description of what is included in account 2210 – Central Office Switching and the Company stated that "Carbon/Emery Account 2210 represents Central Office

[1] If the future net salvage is different than zero, the amount to be recovered may be adjusted for the future net salvage.
[2] See page 22, lines 1-5 of Mr. Meredith's Direct Testimony and Exhibit S-7 of the Company's Supplemental Filing.

Switching equipment."[3] Also when asked in discovery to provide the support for the authorized rates the Company provided three pages apparently filed in Docket No. 94-042-01.[4] Account 2210 – Central Office Switching is not shown on any of these supporting documents.

Since the Company describes the account 2210 as "Central Office Switching equipment", there is no reason that the central office switching equipment in this account should depreciate any faster then the central office digital switching equipment in account 2212. I am recommending that the digital switching depreciation rate of 8.33% should also apply to the central office switching equipment the Company chooses to book in account 2210.

This correction is shown on Schedule RM-1.2 and included in Column (B) of summary Schedule RM-1.1.

Q. Please discuss the adjustment shown in Column (C) of Schedule RM-1.1.

A. The adjustment shown in this column is addressed in the testimony of CCS witness Mr. Dunkel and the calculation is shown on his Schedule WD-1, page 2.

Q. Please discuss the adjustments shown in Columns (D) and (E) of Schedule RM-1.1.

A. Column (D) reverses the Company's adjustment to depreciation expense shown in Exhibit S-1, column (H) as calculated on Company Exhibit S-6. The Company is

[3] See response to CCS request 2.5.
[4] See response to CCS request 3.11.1, attached as Schedule RM-3.

proposing to increase the depreciation rates of five accounts: Buildings, Underground Cable, Buried Cable, Intrabuilding Network, and Conduit Systems. These changes increase annual depreciation expense by $158,442 ($95,857 intrastate) in the Company filing. Column (E) of Schedule RM-1.1 is the CCS proposed adjustment to depreciation expenses.

Q. Why do you reverse the Company's adjustment to depreciation in Column (D) of Schedule RM-1.1?

A. As discussed below, there are several errors contained in the Company's calculation, and instead of including the impact of the correction of those errors it was cleaner to just reverse the Company's depreciation expense adjustment and start with a new depreciation expense adjustment shown in Column (E) of Schedule RM-1.1.

Q. Please discuss the errors in the Company's Exhibit S-6?

A. There are three errors in the Company's filed calculation in Exhibit S-6. The first error is including column D on Company Exhibit S-6. The amounts in column D are already included in the figures in column C; therefore adding these amounts again in column D double counts these amounts. For example, in account 2210 – Central Office Switching, the Company calculated the $1,086,287 amount shown in column F of Exhibit S-6 as follows:

Investment at the beginning of 2004[5]		Plant additions in 2004[6]		Investment at end of 2004[7]		Plant additions in 2004[8]		"Adjusted Balance" in Exhibit S-6[9]
$604,417	+	$240,935	=	$845,352	+	$240,935	=	$1,086,287

As shown in the above table the Company double counted the 2004 additions. My first correction to Exhibit S-6 is to eliminate this double counting.

The second error is the depreciation change of $33,745 shown on line 13, column U for subscriber circuit equipment. Exhibit S-6 is calculating the impact on the depreciation expense of the Company's proposed changes to the depreciation rates of five accounts.[10] Account 2232 – Subscriber Circuit Equipment is not one of the five accounts the Company is proposing a change in the depreciation rate. This $33,745 increase in depreciation expense results from a formula error embedded in the calculations contained on this Company Exhibit.[11]

[5] See Company Exhibit S-5.1, column C, row 10.
[6] See Company Exhibit S-5.1, column E, row 10.
[7] See Company Exhibit S-5.1, column D, row 10.
[8] See Company Exhibit S-5.1, column E, row 10.
[9] See Company Exhibit S-6, column F, row 9.
[10] See page 22, lines 11-22 of Mr. Meredith's Direct Testimony for the listing of the five accounts that the Company is proposing to change the depreciation rates.
[11] The formula contained in row P, column 25 of Company Exhibit S-6 is in error. The formula should compare the calculated depreciation expense to the adjusted net plant contained in column M. However, the formula contained in the Company's spreadsheet compares the calculated depreciation expense to the per book net plant, which causes the amount shown in column P to be $0 instead of $33,745.

The third error is in column I of Company Exhibit S-6. The Company shows the amounts in this column as positive numbers, but they should be negative numbers. For example, for account 2212 – Motor Vehicles the Company shows a total Plant in Service of $54,000[12] and Depreciation Reserve amount of $10,800.[13] In a proper Net Plant calculation, the Depreciation Reserve is deducted from the Plant in Service, so Motor Vehicles should show a Net Plant amount of $43,200 ($54,000 - $10,800 = $43,200). However, the Company incorrectly added the Depreciation Reserve amount to the Plant in Service amount and arrived at a Net Plant amount of $64,800 ($54,000 + $10,800).[14] The Company's Net Plant figure is higher than the Plant in Service amount, which is an error. The amounts in Column I should be negative numbers in order to properly calculated the Net Plant amounts in Company's Exhibit S-6. These errors are removed in Column (D) of Schedule RM-1.1.

Q. Please continue with your discussion of the adjustment shown in Column (E) of Schedule RM-1.1.

A. Column (E) of Schedule RM-1.1 shows the CCS adjustment to the per booked depreciation expense due to changes in the Company's depreciation rates and the impact of certain fully depreciated accounts. This testimony supports the changes to the depreciation rates and CCS witness Mr. Dunkel's supports the adjustments due to the fully depreciated accounts.

[12] See Company Exhibit S-6, column F, row 2 and Company Exhibit S-5, column C, row 2.
[13] See Company Exhibit S-6, column J, row 2 and Company Exhibit S-5, column H, row 2.
[14] See Company Exhibit S-6, column L, row 2.

On page 23, lines 5-7, Mr. Meredith explains that the Company is proposing changes to the depreciation rates for five accounts "based generally on the apparent deficiency in current reserve levels in relation to the plant balances."

Q. Are the Company's reserve levels low?

A. No, the Company's current overall per book percent depreciation reserve is 73.21%.[15] According to the 2004 information filed with the FCC the percent depreciation reserve for the RBOCs (Regional Bell Operating Companies) and large independents is 64.80% (see Schedule RM-2).[16]

Carbon/Emery's overall percent reserve is not deficient compared to the industry average percent reserve, actually Carbon/Emery's depreciation reserves are higher than average.[17] In addition, several of the Company's depreciable accounts are fully depreciated although the investment is still in service. The accounts that were fully depreciated at the end of 2004 have a $0 Net Plant balance shown in column K of the Company's Exhibit S-6.[18] When an account is fully depreciated, but the investments are still in service, that indicates the average life of the investment was longer than the life assumed in the depreciation rates.

[15] Exhibit S-6, row 24, per book accumulated depreciation reserve (column G) divided by per book plant in service amount (column C). $25,689,788 / $35,092,288 = 73.21%. On October 3, 2005 CCS has asked for the Company's support that the reserves of these five accounts are deficient and has not yet received a response to the request.

[16] Data compiled from 2004 ARMIS 43-02, Table B1 by the FCC. See FCC ARMIS preset reports website http://svartifoss2.fcc.gov/eafs/PresetMenu.cfm. The RBOCs and larger independents are required to annually file certain investment, reserve, expense, and revenue information to the FCC, the information provided in these filings are available on the FCC ARMIS website. (http://www.fcc.gov/wcb/armis/. Automated Reporting Management Information System (ARMIS))

[17] In addition in paragraph 16 of FCC 99-397, released December 30, 1999 the FCC states that the 51% reserve reported to the FCC at that time was at an all time high.

Q. What do you recommend pertaining to the Company's proposed depreciation rate change to the Buildings account?

A. I recommend the depreciation rate of 3.33% continue to be applied to this account. As is shown on Company Exhibit S-6, the current depreciation rate for the Buildings account is 3.33%, which assumes that on average a building investment will last about 30 years. This depreciation life is the number of years the investment is expected to be in service. The Company is proposing to increase the depreciation rate to 5%, which indicates the investments are expected to live an average of 20 years. As discussed above the Company's only stated reason for proposing this depreciation rate increase is due to the claimed "deficiency in current reserve levels." The Buildings account current depreciation reserve level is about 46%.[19] I have not seen any information that indicates a 46% reserve level for Buildings is deficient. Therefore, I recommend the continuation of the 3.33% depreciation rate since the current reserve level is for this account is healthy.

Q. What do you recommend pertaining to the Company's proposed depreciation rate change to the Conduit Systems account?

A. As is shown on Company Exhibit S-6, the current depreciation rate for the Conduit Systems account is 2%, which assumes that on average a conduit will last about 50 years. This depreciation life is the number of years the investment is expected to be in service after it is installed. The Company is proposing to increase the depreciation rate to 3.33%,

[18] Account 2212 – Digital Switching Equipment will fully depreciate in 2005, see the Direct Testimony of Mr. Dunkel.

which decreases the service life to about 30 years. The FCC conducted extensive proceedings in which they reviewed depreciation information from various companies across the nation and has set ranges for the depreciation lives for certain accounts. For the Conduit Systems account the FCC set life range is 50-60 years.[20]

In addition, as discussed above the Company's only stated reason for proposing this depreciation rate increase is due to the claimed "deficiency in current reserve levels." The Conduit Systems account current depreciation reserve level is about 40%.[21] I have not seen any information that indicates a 40% reserve level for Conduit Systems is deficient. Therefore, I recommend the continuation of the 2% depreciation rate, which assumes a 50-year service life.

These recommendations are shown in Schedule RM-1.3 and included in Column (E) of summary Schedule RM-1.1.

Q. Please summarize your depreciation rate recommendations.

A. I recommend that for Buildings and Conduit Systems the existing depreciation rates of 3.33% and 2.00%, respectively, continue to be used and the Company's proposed change be rejected. Also, as previously discussed, I recommend that the Central Office Switching equipment depreciation rate be the same 8.33% depreciation rate used for Central Office Digital Electronic Switching equipment.

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[19] Exhibit S-6, column G divided by column C. $1,146,617 / $2,500,973 = 45.85%.
[20] See Appendix B of FCC 99-397, released December 30, 1999; Appendix B of FCC 95-181, released May 4, 1995; and Appendix B of FCC 94-174, released June 28, 1994.
[21] Exhibit S-6, column G divided by column C. $135,076 / $332,315 = 40.65%.

V. ANALYSIS OF SEPARATIONS FACTORS

Q. Please address Column (F) of Schedule RM-1.1.

A. I reviewed the separations factors used by Carbon/Emery in the September Supplemental Filing. First I reviewed the 2004 NECA Cost Study provided in response to CCS discovery request 1.11 and compared the factors in the NECA study to the factors used in Carbon/Emery's supplemental filing. I also reviewed the Company's 2004 NECA Cost Study along with the FCC Separations Procedures,[22] which include specific requirements as to how investments, reserves, and expenses (costs) must be allocated between the interstate and intrastate jurisdictions. The separation factors used in the Company's filing are based on the Company's 2004 NECA Cost Study.

The only change I am recommending is that the consultant rate case fee related to this rate case be directly assigned to the intrastate jurisdiction instead of being allocated to both jurisdictions as proposed in the Company's filing.

Q. Why are you recommending that the consultant rate case fee be directly assigned to the intrastate jurisdiction?

Page 21 lines 10-12 of Mr. Meredith's Direct Testimony[23] states that the Company allocated 62.83% of the $160,000 estimated consultant rate case fee to the intrastate jurisdiction. FCC Separations Procedures requires direct assignment of costs where

[22] FCC Rules, 47 CFR 36.
[23] Also see Company Note Exhibit S-1, paragraph (e).

possible.[24] The consultant rate case fee for this proceeding is directly related to the Company's intrastate services and therefore should be allocated 100% to the intrastate jurisdiction.

Column (F) of Schedule RM-1.1 also includes CCS witness Mr. Dunkel's recommendation regarding the amortization of this consultant rate case fee. The amortized amount of the consultant rate case fee should be directly assigned to the intrastate jurisdiction.

Q. What is Column (G) of Schedule RM-1.1?

A. Column (G) of summary Schedule RM-1.1 presents Mr. Dunkel's recommendation to amortize certain Corporate Operations expenses as shown on his Schedule WD-3.[25]

VI. OTHER ADJUSTMENTS

Q. What are Columns (H) and (I) of Schedule RM-1.1?

A. These columns incorporate Mr. Dunkel's recommendations pertaining to GPS, black topping, gates, and certain maintenance expense adjustments, as discussed in Mr. Dunkel's testimony. The adjustments shown in Column (I) of summary Schedule RM-1.1 are calculated on Schedule RM-1.4.

[24] 47 CFR 36.1(c) that states: "The second step is the apportionment of the cost of the plant in each category among the operations by direct assignment where possible, and all remaining costs are assigned by the application of appropriate use factors" and 47 CFR 36.2(e) that state: Costs associated with services or plant billed to another company which have once been separated under procedures consistent with general principles set forth in this part, and are thus identifiable as entirely interstate or State in nature, shall be directly assigned to the appropriate operation and jurisdiction."

[25] The adjustment to consultant rate case fee shown on Schedule WD-3 is included in Column (F) of summary Schedule RM-1.1.

Q. Please discuss the adjustment shown in Column (J) of Schedule RM-1.1.

A. In the Company's filed Exhibit S-5, column B, lines 12 and 13 the amounts of the Company's proposed post 2004 plant additions for Interexchange Circuit and Microwave Transmission are incorrect. The Company carried forward the incorrect amounts when transferring the figures from one Exhibit to another Exhibit. The correct amounts are shown on Company's Exhibit S-5.2, column C, lines 5 and 6, respectively. I have corrected this error in Schedule RM-1.5.

Q. What is Column (K) of Schedule RM-1.1?

A. The Company's filing omitted the Materials investment amount from the adjusted rate base. The Materials investment is added into the rate base in Column (K) of summary Schedule RM-1.1. This column also includes the adjustment to Cash Working Capital (CWC) due to the CCS adjustments. The CWC is calculated using the Company's Exhibit S-13 formulas adjusted for CCS adjustments as is shown on Schedule RM-1.8.

Q. What adjustment is shown in Column (L) of Schedule RM-1.1?

A. Column (L) of summary Schedule RM-1.1 shows the adjustment to depreciation reserve as recommended in CCS witness Mr. Dunkel's testimony.

Q. Please discuss Column (M) of Schedule RM-1.1.

A. Column (M) of summary Schedule RM-1.1 adds the CCS adjustments to the Company's filed adjusted intrastate revenue requirement.

Q. What is shown in Column (N) of Schedule RM-1.1?

A. Column (N) of summary Schedule RM-1.1 shows the impact of CCS witness Mr. Regan's 4.95% cost of money and the associated adjustment to income taxes. The amounts shown in Column (N) are calculated using the Company's formulas provided in Company Exhibits S-3 and S-4 adjusted for CCS proposals, as is shown on Schedule RM-1.7 and RM-1.10.

Q. Please discuss Column (O) of Schedule RM-1.1.

A. Column (O) of summary Schedule RM-1.1 shows the CCS adjusted intrastate revenue requirement. Row 1 of Column (O) indicates that the CCS adjustments result in a $392,859 recommended annual increase in intrastate revenues, as opposed the Company's recommended $2,599,845 annual intrastate increase. CCS witness Mr. Regan's testimony addresses the rate increases needed to recover this $392,859 intrastate revenue deficiency.

Q. Does this conclude your testimony?

A. Yes.